

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Mt. Carmel Public Utility co.	:	
	:	Docket No. 13-0079
	:	
Proposed general rate increase for gas	:	
service and an electric rate design revision.	:	

**REPLY BRIEF ON EXCEPTIONS OF THE
STAFF OF THE ILLINOIS COMMERCE COMMISSION**

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October 8, 2013

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The Staff (“Staff”) of the Illinois Commerce Commission (“Commission” or “ICC”), by and through its counsel, and pursuant to Section 200.400 of the Commission’s Rules of Practice (83 Ill. Adm. Code 200.400), respectfully submits this Reply Brief on Exceptions in the above-captioned matter. Staff and Mt. Carmel Public Utility, Co. (“Mt. Carmel” or “Company”) filed their respective Initial Briefs on August 13, 2013, and their respective Replies Briefs on August 27, 2013. Mt. Carmel filed an erratum to its Reply Brief on September 12, 2013 clarifying its position that the “Company does not contest Staff’s adjustment for lobbying expenses for the current pending rate filing in this docket.” (Erratum to the Reply Brief of Mt. Carmel (filed Sept. 12, 2013).) The Administrative Law Judge (“ALJ”) filed the Proposed Order (“PO”) on September 17, 2013. Staff and Mt. Carmel filed their respective Briefs on Exception on October 1, 2013. Staff now files its Reply Brief on Exceptions.

As to Mt. Carmel's first exception, Mt. Carmel identified a gas net operating income of \$196,971 to correct an error in the PO. Mt. Carmel BOE at 1; see PO at 1. Staff identified the amount in our BOE as \$183,177. Staff BOE at 9. The difference is due to Staff's proposed operating statement adjustment of \$13,794. See Appendix B Gas at 3. Mt. Carmel agreed with Staff's proposal, and as such, the gas net operating income should be \$183,177, as discussed in Staff's BOE. Staff BOE at 9-10; see also Mt. Carmel RB at 3 ("Company does not contest Staff's proposed two adjustments to MCPU's operating income: (1) Staff's proposed adjustment to remove the costs associated with office space rented to a private law office from the Company's electric rate base; and (2) Staff's proposed adjustment to allocate a portion of the general office building to the gas function."). To the extent Mt. Carmel proposed a gas net operating income of \$196,971 rather than \$183,177 in its BOE, this appears to be a mere scrivener's error which should be corrected.

Staff recommends the PO be amended as follows:

For electric operations, the Company proposes to keep the rates and relative revenue levels that currently exist and as a result is requesting no increase in electric base rates. The Company proposes to consolidate its current bundled electric rates with its current electric delivery service rates. The Company requested revenue increase for gas operations of \$591,741 without add-on taxes. Mt. Carmel proposed an original cost rate base for gas operations of \$3,263,509, and a proposed rate of return on rate base of 7.1753%. This proposal yields an increase of \$362,508 to gas net operating income of ~~\$362,508~~.

Staff agrees with Mt. Carmel that the PO should be clarified as to the cost of capital for gas operations. See Mt. Carmel BOE at 2-3. However, Staff recommends the Commission adopt its proposed language to clarify the Commission Conclusion. Staff

BOE at 6-7. For convenience, Staff reiterates its proposed Commission Conclusion here:

Commission Conclusion

Staff found that based on Mt. Carmel's capital structure and costs of capital, a just and reasonable rate of return for Mt. Carmel's electric delivery service operation is 7.57% and for its gas distribution operations is 7.12%. The Commission finds Staff's proposed capital structure and costs of ~~debt capital~~ capital are reasonable for this proceeding. ~~Staff found that based on its capital structure and cost of debt, Mt. Carmel the just and reasonable rate of return on its net original cost gas rate base, incorporating a cost of common equity of 10.15%, is 7.12%.~~

Upon incorporation of the conclusions stated above, the Commission finds that MCPU's capital structure and costs of capital, ~~resulting~~ resulting in overall costs of capital ~~that~~ that ~~of~~ may be summarized as follows:

Electric Delivery Service Operations

Class of Capital	Ratio	Cost	Liquidity Premium	Weighted Cost
Short-term debt	5.97%	2.70%		<u>0.16%</u>
Long-term debt	38.60%	3.45%		1.33%
Common Equity	<u>55.43%</u>	9.47%	<u>1.50%</u>	6.08%
TOTAL	100.00%			7.57%

Gas Distribution Operations

Class of Capital	Ratio	Cost	Liquidity Premium	Weighted Cost
Short-term debt	5.97%	2.70%		<u>0.16%</u>
Long-term debt	38.60%	3.45%		1.33%
Common Equity	<u>55.43%</u>	8.65%	<u>1.50%</u>	5.63%
TOTAL	100.00%			7.12%

The Commission finds ~~that~~ these overall costs of capital to be reasonable. Given that MCPU did not request an increase in electric revenues and requested a lesser increase in gas revenue than could be justified, the Commission authorizes Mt. Carmel to earn a 5.87% return on net original cost electric rate base and 6.59% on net original cost gas rate base.

Inasmuch as Mt. Carmel took no other exceptions, Staff stands on its Brief on Exceptions, and recommends the Commission adopt the changes proposed by Staff in its Brief on Exceptions.

Conclusion

WHEREFORE, Staff respectfully recommends the Commission approves Staff's modifications to the ALJ's Proposed Order made herein and its Brief on Exceptions.

Respectfully submitted,

_____/s/_____

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